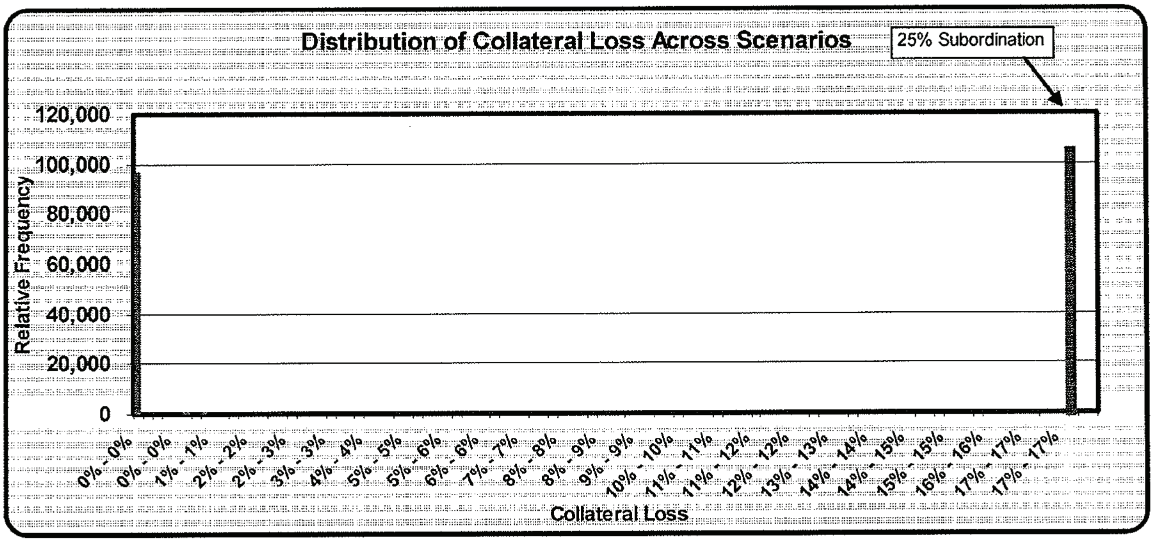
Probability Density of Collateral Loss (Base Case – Ratings)



The chart above displays both the distribution of collateral losses (clustered on the far left side the graph) and the collateral loss level required to generate the first dollar of loss to Ambac's tranche (the vertical line on the far right of the graph). This picture conveys visually the tail loss information contained in the "Risk Profile Summary" tables on the first page of the Credit Risk Analysis section. Clearly Ambac's exposure to loss in this deal is small..

Default Analysis:

CDO Manager Assumptions:

The CDO Manager Monte Carlo base-case simulations incorporate 100,000 iterations to analyze tail loss. The Stress Scenarios are based on 10,000 iterations.

Stress Tests / Sensitivity Scenarios

Rating Shifts

- Ratings Lowered 3 Notches

All reference obligations ratings were lowered by 3 notches

- Ratings Lowered 6 Notches

Ratings were lowered across all respective collateral assets by 6 notches.

Correlation Sensitivity

Pair-wise correlations doubled from 35% to 70%.

Recovery Rate Sensitivities

For this stress test we decreased recoveries by one-half, to a WARR of 25.2%.

Moral Hazard

In order to meet the maximum allowable Collateral Quality Parameters' WARF level of 25, we take one notch down (from Aa2 to Aa3) on 13 issuers (25% of the portfolio). The Weighted Average Life was increased from 5.94 years (Base Case) to 7 years; and the Weighted Average Recovery Rate was decreased to 35% as stipulated in the Collateral Quality Test Parameters. This is considered to be a "Worst-Case" ramp-up scenario.

Stress Scenario	Mean Loss	P [Ambac Claim]	Shadow Rating
All Ratings Down 3 Notches	0%	0%	Aaa
All Ratings Down 6 Notches	0.00174%	0.06%	Aaa
Correlation (70% pair-wise)	0%	0%	Aaa
Recovery Rates Halved (WARR = 25.2%)	0%	0%	Aaa
Moral Hazard	0%	0%	Aaa

Agency Analysis

Ambac has reviewed the Moody's and S&P analyses provided by Citigroup and confirmed the Aaa and AAA ratings, respectively, on the Class A1 Notes, A2 Notes and A3 Notes.

S&P Methodology (Appendix B)

The S&P analysis uses 32 different static scenarios to generate the breakeven point where the notes break or the first dollar of loss occurs. Across the 32 static scenarios, the Minimum Breakeven Default Rate where the Notes survive is 31.28% and the Average Breakeven Default Rate is 40.66%. According to the S&P CDO Evaluator, the target portfolio must survive a cumulative default rate of at least 15% in order to be rated AAA. Thus, the Class A1a Notes, A2 Notes and A3 Notes are all rated AAA by S&P (please see the results for A2 and A3 Notes in Appendix B).

Moody's Methodology (Appendix C)

Moody's methodology involves calculating expected loss by using CDOROM model, which is a Monte Carlo-based simulation model. CDOROM calculates the expected loss on tranches of CDOs based on asset default probabilities, recovery rates and correlations.

- Moody's is using CDOROM to calculate the Asset Correlation. This model is designed for static synthetics, but it has all the ABS types in the model. They run a one period Monte Carlo simulation and derive the Asset Correlation.
- Cash-flow Model: Bankers provide Moody's with the cash flows for each ABS. Using the Asset Correlation, they run the Cash Flow model that is based on a Correlated Binomial Model. In this model, each asset has a constant single correlation that has been derived in CDOROM. Moody's believes that this method is better as it generates fatter tails so their rating assumptions are stronger.
- Default Probability: Moody's default probabilities are based on an expected loss table. Unlike S&P, Moody's uses the same table for both corporate securities and ABS. It converts expected loss into default probability using an idealized recovery rate of 35%.
- Recovery: Moody's recovery rates are based on asset type, ABS tranche size (as % of capital structure) and rating of the ABS tranche.

The expected loss on the AA CDO^2 Class A1 Notes is 0.0000%, which is less than the hurdle loss rate of 0.0078% for Aaa rating with 6 years average life.

Appendix A
AA ABS CDO^2 Modeled Portfolio

	Issuer	Par Amount (USD)	Floating Spread	Collateral Manager	Attachment	Detachment	Moody's Rating	S&P Rating
1	ACABS 2006-1A A2L	40,000,000	2.13%	ACA	15.3%	26.0%	Aa2	AA
2	ACABS 2006-2A A2L	40,000,000	1.41%	ACA	15.5%	25.1%	Aa2	AA
3	ACABS 2006-AQA A2	40,000,000	2.01%	ACA	15.1%	24.0%	Aa2	AA
4	ACABS 2007-1A A2	40,000,000	1.72%	ACA	16.5%	29.7%	Aa2	AA
5	BAYF 2006-1A 3	40,000,000	1.90%	RaboBank	12.3%	23.0%	Aa2	AA
6	BFCGE 2006-1A A2L	40,000,000	1.41%	Braddock Finar	14.0%	21.7%	Aa2	AA
7	BUCHN 2006-1A A2	40,000,000	1.80%	STATIC	9.8%	21.7%	Aa2	AA
8	CACDO 2006-1A B1	40,000,000	1.53%	SSGA	20.4%	26.4%	Aa2	AA
9	CAMBR 5A A3	40,000,000	1.65%	Cambridge Pla	9.7%	23.1%	Aa2	AA
10	CETUS 2006-2A A2	40,000,000	1.53%	GSC	15.0%	20.0%	Aa2	AA
11	CETUS 2006-3A B	40,000,000	1.53%	GSC	16.8%	24.0%	Aa2	AA
12	CLDW 2006-1A A3	40,000,000	1.49%	MetWest	12.4%	19.7%	Aa2	AA
13	CRNMZ 2006-2A B1	40,000,000	1.45%	Carin	16.5%	21.4%	Aa2	AA
14	DGCDO 2006-2A B	40,000,000	1.45%	SSGA	14.2%	24.2%	Aa2	AA
15	DRACO 2007-1A A2	40,000,000	1.72%	Declaration As	17.4%	23.4%	Aa2	AA
16	EIGHT 2007-1A A4	40,000,000	1.90%	Harding	10.9%	18.4%	Aa2	AA
17	ETRD 2006-5A A2	40,000,000	1.98%	E-Trade	14.6%	23.0%	Aa2	AA
18	GEMST 2006-6A B	40,000,000	1.89%	HBK	15.5%	25.0%	Aa2	AA
19	GLCR 2006-4A B	40,000,000	1.66%	Terwin	10.6%	16.3%	Aa2	AA
20	GSCSF 2006-4A A2	40,000,000	1.88%	GSC	15.7%	21.7%	Aa2	AA
21	ICM 2006-S1 A2L	40,000,000	1.80%	Ischus	12.5%	20.3%	Aa2	AA
22	ICM 2006-S2A A2L	40,000,000	1.93%	Ischus	14.5%	19.3%	Aa2	AA
23	IXCBO 2006-2A B	40,000,000	1.74%	IXIS North Ame	12.0%	18.0%	Aa2	AA
24	KNOLL 2006-2A B	40,000,000	2.04%	Deerfield	13.2%	19.5%	Aa2	AA
25	LBRAC 2006-1A B	40,000,000	1.57%	LBAM	14.7%	20.2%	Aa2	AA
26	LBRTS 2006-1A B	40,000,000	1.93%	Cohen Bros.	13.9%	19.3%	Aa2	AA
27	LCERT 2006-1A A2	40,000,000	1.53%	STATIC	15.0%	20.0%	Aa2	AA
28	LSTRT 2006-1A B	40,000,000	1.97%	JPMIM	13.6%	19.0%	Aa2	AA
29	MIDOR 2006-1A B	40,000,000	1.91%	LBAM	13.1%	18.7%	Aa2	AA
30	MKP 6A B	40,000,000	1.41%	MKP	9.9%	25.2%	Aa2	AA
31	MNPT 2006-1A B	40,000,000	1.89%	Fortis Investme	14.2%	25.0%	Aa2	AA
32	MNPT 2006-2A A2	40,000,000	1.41%	Fortis Investme	15.2%	25.2%	Aa2	AA
33	MNTRS 2006-1A B1	40,000,000	2.09%	Vanderbilt	14.0%	20.9%	Aa2	AA
34	OCTAN 2006-1A B	40,000,000	1.53%	Harding	21.3%	25.3%	Aa2	AA
35	OCTAN 2006-2A B	40,000,000	1.53%	Harding	16.8%	24.0%	Aa2	AA
36	OCTON 2007-1A A3	40,000,000	1.53%	Harding	17.8%	26.5%	Aa2	AA
37	ORCHD 2006-3A B	40,000,000	1.95%	STAM	9.9%	17.8%	Aa2	AA
38	ORIN 2006-1 B	40,000,000	1.53%	NIB Capital	15.2%	21.4%	Aa2	AA
39	ORIN 2006-2A B1	40,000,000	1.53%	NIB Capital	18.0%	23.7%	Aa2	AA
40	PLETT 2007-1A A2	40,000,000	1.53%	Investec	13.3%	21.3%	Aa2	AA
41	PYXIS 2006-1A B	40,000,000	1.53%	Putnam	15.2%	21.4%	Aa2	AA
42	PYXIS 2007-1A B	40,000,000	2.20%	Putnam	18.4%	26.4%	Aa2	AA
43	SCORP 2006-1A B	40,000,000	1.53%	Cohen Bros.	18.8%	21.3%	Aa2	AA
44	TABS 2005-4A C	40,000,000	1.70%	Tricadia	12.0%	19.4%	Aa2	AA
45	TABS 2006-5A A2	40,000,000	1.45%	Tricadia	15.7%	25.0%	Aa2	AA
46	TABS 2006-6A A2	40,000,000	1.45%	Tricadia	15.7%	25.0%	Aa2	AA
47	TOPG 2006-2A A2	40,000,000	1.78%	MetWest	12.4%	17.9%	Aa2	AA
48	VELA 2006-1A B	40,000,000	1.45%	MKP	16.7%	22.7%	Aa2	AA
49	VERT 2006-1A A2	40,000,000	1.57%	Vertical Capital	11.7%	25.7%	Aa2	AA
50	VRGO 2006-1A A2	40,000,000	1.97%	Vertical Capital	15.1%	24.0%	Aa2	AA

Appendix B: S&P and Moody's Analysis S&P Breakeven Analysis

S&P Breakeven Results	A-1	A-2	A-3
Target Rating	AAA	AAA	AAA
Hurdle Loss Rate	15.00%	15.00%	15.00%
S&P Recovery Rate	53.00%	53.00%	53.00%
Breakeven	32.32%	23.24%	19.82%
Cushion	17.32%	8.24%	4.82%

Prepay	IR Rate	Def Timing	A-1	A-2	A-3
Base	Base Libor	1	44.06%	29.10%	24.11%
		2	45.00%	30.02%	24.88%
		3	44.72%	29.11%	24.02%
		4	43.50%	28.72%	23.80%
		5	45.00%	29.38%	23.38%
		6	45.00%	29.60%	24.05%
		7	45.00%	29.09%	22.92%
		8	44.90%	29.10%	23.86%
Base	Up	1	31.89%	23.18%	20.28%
		2	33.67%	24.47%	20.98%
		3	32.67%	23.30%	19.53%
		4	31.28%	22.75%	19.89%
		5	33.95%	23.38%	20.06%
		6	35.70%	24.66%	20.58%
		7	34.00%	23.32%	19.73%
		8	33.07%	23.57%	20.47%
Base	Down	1	45.00%	31.99%	25.94%
		2	45.00%	32.72%	26.54%
		3	45.00%	32.35%	25.80%
		4	45.00%	31.67%	25.68%
		5	45.00%	32.14%	24.94%
		6	45.00%	31.93%	25.41%
		7	45.00%	31.57%	24.81%
		8	45.00%	31.74%	25.47%
Base	Down/Up	1	39.33%	27.15%	23.10%
		2	40.14%	27.72%	23.44%
		3	39.80%	27.05%	22.81%
		4	38.81%	26.80%	22.79%
		5	39.82%	26.37%	21.99%
		6	40.76%	26.82%	22.20%
		7	39.53%	26.55%	21.48%
		8	39.50%	26.79%	22.63%

Moody's Expected Loss Results

Expected Loss By Tranche: A-1

Threshold	0.0078%

	Libor	1	2	3	4	5
	Def Timing					
Base	1	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
	2	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
	3	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
	4	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
	5	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
	6	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%

Expected Loss By Tranche: A-2

Threshold	0.0143%

	Libor	1	2	3	4	5
	Def Timing					
Base	1	0.0001%	0.0001%	0.0002%	0.0001%	0.0004%
	2	0.0001%	0.0001%	0.0002%	0.0001%	0.0004%
	3	0.0001%	0.0001%	0.0002%	0.0001%	0.0004%
	4	0.0001%	0.0001%	0.0002%	0.0000%	0.0003%
	5	0.0001%	0.0000%	0.0001%	0.0000%	0.0002%
	6	0.0001%	0.0000%	0.0001%	0.0000%	0.0001%

COLLATERAL ASSUMPTIONS	
Number of Assets	50
Asset Correlation	35%
Recovery Rate	35%
Base WAL	7
WARF	25

Appendix C Ambac CEP and RaRoC

Summary of Inputs and Outputs *Version 2007_2*
AA CDO^2 *January 16, 2007*

DO NOT INPUT HERE

Deal Name		AA CDO^2
Par	$	1,500,000,000
Coupon		5.78%
Premium Type (UF or Install)		
Upfront Premium rate (derived)		0.00000%
Upfront Premium (hard input $)	$	-
Installment Premium rate - Used		0.300%
Structuring Fee	$	-
Ambac Rating (Moodys Format)		Aaa
Bond Type		CDO
Bond Kind		CDO Other
Average Life		6. Years
Capital Charge Type		
Capital Charge Par		0.10%
Capital Charge AADS		0.00%
Capital Charge Type		Par
Amortization Type		Bullet
Final Maturity Date		2013
Years to Legal Final Maturity		6
Clean-up Call		0.00%
MBS Prepayment Speed		0.00%

OUTPUTS	
Margin of Safety	1.3500000
Economic Capital	4,352,106
Initial Required Capital (S&P)	(47,060,780)
CEP	22,551,319
Expected Loss (Discounted)	788,998
RAROC	74.8%
Amortization Status	Amort. OK

Capital Charge Calculation / Inputs	
S&P ABS gap methodology for calculating Par Capital Charge	
AAA	0.00%
BBB-	0.00%
Deal Shadow	0.00%
Par Cap Charge	0.10%
--OR ---	
AADS Capital Charge	0.00%

Appendix D
Ambac Indicative MTM Analysis

Spread Increase	Loss
50%	$11,275,660
100%	$22,551,319
150%	$33,826,979
200%	$45,102,638

Appendix E Work Plan

Deal Name: AA CDO^2

Analyst: Emily He

Anticipated Committee Date:

Projected Analytics Presentation Completion:	3/13/ 1:00pm
Analytics Starting Time	3/7/2007

Information Checklist:

		Date Received
Sources and Uses Received from/Discussed with Transactor	Yes	3/7/2007
Complete Waterfall Structure Documentation Received from/Discussed with Transactor	Yes	3/7/2007
All Required Portfolio Data (Ratings, Pricing, etc.) Received from/Discussed with Transactor	Yes	3/7/2007
All Hedge Details (Interest Rate Swap, FX Option, etc.) Received from/Discussed with Transactor	Yes	3/7/2007

Analytics:

Base Case:

CDO Manager - Spreads	
CDO Manager - Ratings	X
CDO Manager - Moral Hazard	X
CDO Manager - Kamakura Correlations	

Stress Tests / Sensitivity Scenarios

Double Correlation:	X
+ 350 bps Spread Shift (NIG only)	
+ 700 bps Spread Shift (NIG only)	
Rating Shifts (Down 3 notches; 6 notches)	X
Recovery Rate Halved	X
Yield Curve Shift (150bps)	
Back Loaded Defaults	
Other (Explain Below)	

Modeling Aspects of Deal:
Standard CDO Squared
Modeling Assumptions - Ratings based
100% Ramped

Ramp-up Parameters / Assumptions (Base Case):

Collateral Quality Test	Level
Weighted Average Collateral Life	5.94 Years
Moody's Weighted Average Rating Factor	20/25 (Aa2/AA)
Securities with below [Aa3/AA] Rating	Max [0]%
Minimum Weighted Average CDS Spread	Libor + [1.20]%
Weighted Average Pair-wise Correlation	35%
Minimum Moody's Recovery Rate	35%

Appendix F

FUND MANAGER EVALUATION

Deal name:	**Class V Funding III, Ltd**
Deal type:	**CDO-squared**
Fund manager:	**Credit Suisse Alternative Capital, Inc ("CSAC")**
Date visited:	**February 6, 2007**
Ambac officers:	**R. Persaud, S. Gordon, D. Salz, C. Lachnicht, P. Van Riper**

Subjective ratings:

Overall Rating	**3.5**
Background	**3.5**
Experience/Historic Performance	**3**
Portfolio Management Team	**3.5**
Investment Strategy/Analytical Approach	**4**
Credit Approval/Monitoring Process	**3**
Work-Out Process/Specific Defaults	**NA**
Operational Controls/Systems/Reporting	**4**
Trustee	

	fidence in manager's capabilities
4	High confidence in manager's capabilities
3	Average – confident of manager's capabilities
2	Some concerns with manager's capabilities
1	Uncomfortable

General Comments

Credit Suisse Alternative Capital ("CSAC") is the manager for the $1 billion Class V Funding III CDO-squared (CDO^2), consisting of single-'A' rated ABS CDOs.

CSAC is an Indirect Subsidiary of the Credit Suisse Group and focuses on private equity related funds and includes the Leveraged Investments Group ("LIG"). LIG has traditionally been focused on High Yield loans and bonds and is the largest manager of leveraged finance CDOs with approximately $15 billion of assets under management involving 26 CDOs. The LIG group has 24 investment professionals, and 18 dedicated support personnel. In the last two years, LIG has sought to expand into Structured Products. The LIG's Structured Products team is relatively new, but not inexperienced, and they continue to ramp up personnel. Ambac participated in their first structured products vehicle, a CDO-squared called Class V ('05), and Ridgeway Court ('06), their first high grade CDO of ABS CDOs. The group expects to launch in general, 3 CDOs per annum (2 mezzanine CDO of ABS and 1 high grade CDO of ABS CDOs (CDO^2)). The group's approach for CDO^2 analytics incorporates a two-level drill down analysis in which they're evaluating the underlying RMBS performance of the CDO tranches invested in, assessing the appropriateness of the subordination on each specific CDO tranche.

LIG and its structured products group benefits from receiving systems and analytics support from the larger Credit Suisse infrastructure, resulting in credit modelling and portfolio management tools enabling a consistent and streamlined approach to asset management. In addition, the Structured Products group benefits from the leverage loan research team in reviewing CLOs and CRE related securities, when applicable. Lastly, the larger organization lends support to the Structured Products effort with investor reporting, compliance and trade administration support. This type of depth in infrastructure is unusual relative to stand alone ABS managers.

We view the manager as qualified for the Class V Funding III transactions for the following reasons:

- addition of experienced personnel with portfolio management, research and trading backgrounds
- extensive resources to leverage (systems, leveraged credit research, CDO administration, etc.)
- a perceived disciplined approach to the selection of securities utilizing drilldown technology, and
- the importance placed upon surveillance.

Background

3.5

Institutional sponsorship and oversight/ Market access and reputation

Fund manager description and affiliation	The Leveraged Investment Group is part of the Credit Suisse Alternative Capital Organization. Through various teams they have issued 23 CDOs since 1998, and currently are responsible for the ongoing management of 26 (3 were acquired). The structured products team has been added over the past two years, but all management members have many years experience in ABS investments (i.e., research, credit selection and portfolio management).
Institution description/history/client base	The CDO will be managed by the LIG group within Credit Suisse.
Institution's market reputation	LIG is the largest manager of leveraged finance CDOs and enjoys a favourable reputation in the market. The Structured Products team can leverage these contacts in coverage.
Ownership/legal structure	
Financial resources/external ratings	
Other institutional resources available to portfolio management team	The LIG team has worked with the Credit Suisse IT team to develop an analytical model for screening and stressing potential credits to take into the portfolio, as well as tools for managing and monitoring existing holdings. Additionally, they benefit from the existing infrastructure (legal, compliance, IT, HR, etc.) available at Credit Suisse.
Assets under management – total, specific asset class	\$8.9B – Senior Secured Loans \$3.0B – Structured Products \$1.9B – High Yield Bonds \$0.8B - Un-invested Proceeds \$0.4B – 2nd Lien Loans **\$15.0B**
Reason for doing CDO	Generate fees for assets under management. The team finds this an opportunistic time to launch given their outlook of spreads widening, they want to lock in low financing costs. They believe there are arbitrage opportunities in the market due to a divergence between general perceptions about certain assets and the actual underlying collateral performance; with the proper analysis that arbitrage can be monetized. Specifically, by using PAUG synthetic contracts, they've ramped at an opportune time as asset spreads have moved out.
Market Access: Broker/Dealer relationships Examples of sales in difficult markets Other comments by Fund Manager	Leverages Credit Suisse reputation to provide broad access to issuers and broker/dealers.
Equity investments by institution, portfolio managers, private clients	

Experience/Historic Performance

3

Ambac's prior experience with/knowledge of Fund Manager or	Ambac wrapped the Class V Funding structure issued by the group in May 2005 as well as the Ridgeway Court transaction in August of 2006. Samir

individual analysts	was the Class V PM and Michael joined in 2006, serving as the PM with Samir on Ridgeway. They will both be serving as co-PMs on this transaction.
Previous CDO's – Dates, $, Transaction similarities/differences relative to proposed transaction, Portfolio History (overall rating migration, CCC's, default statistics, returns vs. benchmarks, etc.)	LIG manages 26 CDOs launched since 1998 with a current market value of approximately $15B. The majority of these were collateralized with loan and bond credits, although they have recently been putting greater emphasis on ABS CDOs. The Class V structure Ambac participated in was predominately a CDO of ABS; Ridgeway Court CDO was a high-grade ABS deal.
Consistency of results	Returns have been positive for all outstanding CDOs, although they have been trending downward over the past few years, somewhat reflective of the overall market.
Asset Type Experience – Data as above for Previous CDO's applicable to all funds under management	The majority of the CDOs launched by the LIG team have been loan and bond portfolios, with the recent introduction of ABS CDOs; the Portfolio Managers running this transaction have managed CDO of ABS transactions at other firms. (e.g., Invesco)
Previous CDO cov. violations, winddowns	None Known

Portfolio Management Team

3.5

Senior Portfolio Manager	Michael Shackelford is Director of ABS strategies. He has thirteen years of investment experience, with the eight most recent focusing specifically on ABS portfolio management. He has been with Credit Suisse for less than a year; prior he worked at INVESCO as an ABS CDO Portfolio Manager (Blue Grass program). Prior to that he was a Portfolio Mgr and Trader at AEGON and earlier worked at the Money Store. Samir Bhatt is Director of ABS strategies, and joined the LIG team in 2004. He has over ten years in ABS credit research, and spent the five years prior to joining the LIG team in Structured Products Research in Credit Suisse, and two years before that as an ABS research analyst and structurer at JP Morgan Chase. Michael and Samir report to the two following individuals: Leading the LIG group is John Popp (MD), who is on the ABS Credit Committee, which approves the purchase of each credit (post-purchase). He has twenty-one years of asset management experience and was a founding partner of First Dominion Capital. Head of Portfolio Management and Trading in LIG is Andrew Marshak (MD), who is on the ABS Credit Committee and has fifteen years of asset management experience. Prior to joining LIG, Andrew was a Founding Partner and Managing Director of First Dominion Capital.
Experience with Asset Type	Strong backgrounds for both Michael and Samir in their respective areas. Michael comes from a deep background in ABS CDOs, along with starting his career in the residential mortgage market. Samir has spent the last ten years performing ABS research and analysis, and developing a broad understanding of credits and their structuring.
Experience with CDO's	Michael Shackelford has spent the past four years managing ABS CDOs, and has been managing ABS portfolios for the past eight years. Samir Bhatt has been purchasing ABS credits for LIG CDOs for the past two years, with over five years of ABS credit research at Credit Suisse.
Experience with other structured vehicles	Michael has been an ABS CDO structurer and manager for several years, overseeing the selection of the credits for the initial portfolio as well as

	Michael has been an ABS CDO structurer and manager for several years, overseeing the selection of the credits for the initial portfolio as well as managing ongoing performance of the deals.
Experience with other basket assets	
PM's/Analysts (#, backgrounds below)	Two Primary Portfolio Managers, with four dedicated ABS analysts, as well as a pool of thirteen other US-based analysts with varying amounts of focus on the ABS/CDO^2 team. Credit Suisse has been actively building out the LIG team and continues plans to grow the team with the addition of another credit analyst. There will be heavy reliance upon Michael and Samir's capabilities, as the remainder of the team is less experienced, although the ABS analysts' experience range from 7-12 years, and the other 13 US-based analysts range between 1-21 years. In addition to the US analysts, there are six other analysts focusing on Europe and Asia, with between four and eight years experience. The LIG team has programming resources on it's own, but also has the benefit of being able to leverage those from the broader CS infrastructure.
Traders	
Turnover	Low, currently building up team.
Structure (sr./sub.) of Management Fee and placement within Priority of Payments	Senior – 10 bps Subordinate – 1 bp
Are PM's invested in the CDO?	Credit Suisse (LIG) is taking 2 million (9%) of the equity component.
How are PM's incented to stay at the firm?	
Assessment of team depth	Michael and Samir both have 8 – 10 years of experience in the ABS market, focusing on credit research and asset selection. Michael has spent several years managing CDOs. Ambac will be relying primarily upon Michael and Samir as the primary decision makers, as they have more relevant experience.
Focus on procedures, ethics, controls/ Assessment of management integrity	Reliance upon Credit Suisse procedures and controls.
Assessment of analyst quality (incl. specific comments on analysts interviewed)	We have not met any of the junior analysts. However Michael and Samir are knowledgeable, experienced and have the analytic depth (knowledge and tools) required of ABS CDO managers.

Individual Portfolio Manager Backgrounds

Portfolio Managers	Primary Focus	Experience (Yrs)	Previous Firms	Degrees
Michael Shackelford	PM and Trading	13	INVESCO AEGON USA C-BASS The Money Store	MA – Cal State – Sacramento BA – Univ. Texas - Austin
Samir Bhatt	PM and Trading	10	JP Morgan Chase	BS – Cornell
John Popp	Leader - LIG	21	First Dominion Cap Indosuez Capital Kidder Peabody Drexel Burnham	MBA – Wharton Graduate Division BA – Pomona Coll.
Andrew Marshak	Head PM and Trader	15	First Dominion Cap Indosuez Capital DL&J	BS – Univ of Penn.

Investment Strategy/Analytical Approach

4

Stated Investment Strategy	LIG performs a fundamental analysis of each credit they review, starting with an understanding of the Issuer / Servicer, looking at their operational capabilities, past performance and financial resources. They then perform a review of the credit, evaluating borrower quality, FICO, LTV, pool-level credit enhancement, and generate loss curves with a proprietary model which incorporates historic performance data from Loan Performance Corporation ("LPC"), and running stress tests on the credits. The team runs forecasting models that take all delinquencies beyond 59 days and take them to full default over the next 24 months (assumes zero cures). Severity levels are calculated to determine the level at which losses wound occur, meaning they push (stress) the collateral to the point at which the structure incurs a loss, to ensure that the subordination level covers the level of default that may exist in the market. If the results satisfy LIG coverage requirements, the credit is then viewed in the broader sense of the structure they're developing and how the cash flow profile matches that of the CDO.
Analytical Tools	Internally developed model which incorporates LPC performance data from 1997 – 2002 used to generate loss curves for each credit reviewed. Portfolio management tools provide for monitoring capabilities by linking with INTEX data, Rating Agency and Trustee reports, providing ongoing performance data for each credit and the collateral.
Relative importance of financial ratios, rating agencies, market values, management assessments, other subjective factors	Emphasis is placed on credits exceeding LIG coverage requirements, with strong fundamental performance and expected cash flow profiles benefiting the CDO structure. Of particular importance is the Master Servicer Agreements, especially in light of the recent shut-downs of several originators, which Michael expects to see a few more of.
Consistency of strategy/lessons learned	Strong emphasis on consistent credit analysis and approval process. Clear requirements are in place for coverage multiples for each level of the credit rating scale. Strong focus on fundamental analysis as well as the value of the issuer/servicer.
Diversification – by obligor, by industry	First aspect of credit selection process focuses on Servicer / Issuer / Manager. The LIG has servicers they prefer, as well as those that they will stay away from.
Industry biases – avoided, emphasized	Preference for longer duration I/O RMBS, due to the higher FICO scores and available spread. I/Os in general are favoured over the new 40-year product, due to the rating agencies requiring greater credit enhancement on the IO, even though it's similar, if not better risk. Not favourable on Negative Amortization.
Relative importance of yield vs. credit quality	Primary focus is on credit quality and fundamental performance.
Trading	Limited turnover permitted during the first three years. Overall, including reinvestment of principal, reinvestment is limited to 10% of the initial pool.

Credit Approval/Monitoring Process

3

Decision making process, composition of Credit Committee	Analysts and Portfolio Managers perform all levels of review of the Servicer/Issuer, the credit and collateral. Purchase authority is with Michael and Samir, but all credits must be reviewed at the weekly ABS Credit Committee, a committee of 5 persons.
Typical due diligence/presentation format	Informal review process, Michael and Samir will take the committee through their investment decisions, but limited focus is placed on walking through the results of the various tests performed. It appears that Michael and Samir's investment opinions are the key factor for decisions.

Examples of additions to/removals from Approved List	Negative Bias – WMC, New Century (they mentioned this in our July visit), First Franklin Positive Bias – Long Beach (mentioned as a negative in July, but are now beginning to buy), Wells Fargo, CountryWide (recent), Litton, HomeEq,
Number of credits per PM	100 per, for this transaction, plus 4 dedicated analysts
Frequency of company visits/management meetings, financial reviews	The team visits servicers and originators as necessary.
Internal rating system	Initial credit decisions are made in regards to stressed performance surpassing LIG credit coverage requirements for each specific credit rating. If credits do not exceed these requirements, they are discarded from the investment process.
Discussions on specific credits: Detailed knowledge of current situations Logical assessment of current/future risks	-Freemont 2005-1: recently sold, expecting the deal to step-down shortly -PPSI 2004 : recently sold; had Katrina exposure and high delinquencies, and saw limited liquidity in the market for it. -Soltise III – foresaw issues on this holding and sold, wound up being called recently. Overall Michael and Samir appear very knowledgeable of the issues in the marketplace and their portfolios, and can the factors by which they differentiate the various issuers and credits. In broader terms, Michael views the general market positively. He feels that continued increases in interest rates will prolong the downturn in the housing market, but will not cause significant macro issues. He feels that starting in mid-late '06, underwriting standards have improved, and that there is now additional credit enhancement in new issues, due to changes in requirements by the rating agencies.
Review of credit files – complete, current, written/electronic	

Work-Out Process/Specific Defaults

Procedures for WO Credits/ Formal Watch List	Not directly applicable to ABS managers; however, Michael has in the past needed to trade out of specific servicers (e.g., Long Beach) and was successful in trading out early enough so as not to sacrifice price. He is also keenly aware of the more subtle risk associated with RMBS in step down risk. In the late 90's, specifically during the '98 market, which largely reflected the current environment, Michael was working at the Money Store, and gained significant experience in evaluating mortgage portfolios.
Past experience – 1991, 1995, since 9/98	Michael's experience at the Money Store during the late 90's is very valuable given the current market conditions.
Historic default rates	
Actual distressed sales	
Additional comments on Market Access: Information Availability, Distressed prices Liquidity	
Downgrades, CCC's in existing portfolios	
Specific defaults	
Lessons learned	

Operational Controls/Systems/Reporting

4

Independent compliance function	Credit Suisse has an independent compliance group that monitors the activities of LIG. CS is also subject to Sarbanes Oxley, and all other relevant review processes required of a public company.
Investor services/reporting	LIG has their own Investor Reporting group
Portfolio valuations/software packages used	Reliance upon Credit Suisse processes and controls
Computer systems	There are a combination of internally developed and 3rd party applicaction in use by the LIG team. Most importantly, LIG receives full support of the broader Credit Suisse IT infrastructure, including programmers, systems support, etc.
Contingency planning	LIG relies upon Credit Suisse's broader contingency planning procedures and facilities.
CDO models used	
Trading procedures	Authorization controls discussed above. Reliance upon Credit Suisse processes and controls

Trustee

Name	LaSalle Bank National Association
Reputation	Very good
Experience with Fund Manager	Underwrote the Class V Funding and Ridgeway Court transactions.
Clear all trades?	
Parallel testing for compliance?	